

STATE: MINNESOTA

Effective: July 1, 1999

TN: 99-10

Approved: Dec. 15, 1999

Supersedes: 99-04 (98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 53

the reporting year prior to the current reporting year's allowable operating cost per diems plus the inflation factor as established in item E, subitem (2), or the current reporting year's corresponding allowable operating cost per diems.

B. For rate years beginning on July 1, 1995, the allowable operating cost per diems for high cost nursing facilities shall be limited as described. After application of the limits in item A to each nursing facility's operating cost per diems, nursing facilities shall be divided into two groups, freestanding or nonfreestanding as defined in item A, subitem (1), and arrayed within these groupings according to allowable case mix A operating cost per diems.

For those nursing facilities in each grouping whose case mix A operating cost per diems exceeds 1.0 standard deviation above the median, the allowable operating cost per diems will be reduced by two percent. For those nursing facilities in each grouping whose case mix A operating cost per diem exceeds 0.5 standard deviation above the median but is less than or equal to 1.0 standard deviation above the median, the allowable operating cost per diems shall be reduced by one percent.

C. For rate years beginning on or after July 1, 1996, the allowable operating cost per diems for high cost nursing facilities shall be limited as described. After application of the limits in item A to each nursing facility's operating cost per diems, nursing facilities shall be divided into two groups, freestanding and nonfreestanding as defined in item A, subitem (1), and arrayed within these groupings according to allowable case mix A operating cost per diems.

For those nursing facilities in each grouping whose case mix A operating cost per diem exceeds 1.0 standard deviation above the median, the allowable operating cost per diems shall be reduced by three percent. For those nursing facilities in each grouping whose case mix A operating cost per diem exceeds 0.5 standard deviation above the median but is less than or equal to 1.0 standard deviation above the median, the allowable operating cost per diems shall be reduced by two percent.

D. For rate years beginning on or after July 1, 1995, a nursing facility's efficiency incentive shall be determined by:

(1) Computing the allowable difference, which is the lesser of \$4.50 or the amount by which the facility's other operating cost limit exceeds its nonadjusted other operating cost per diem for that rate year;

(2) Subtracting the allowable difference in subitem (1) from \$4.50 and dividing the result by \$4.50;

(3) Multiplying by 0.20 the ratio resulting from subitem (2);

STATE: MINNESOTA

Effective: July 1, 1999

TN: 99-10

Approved: Dec. 15, 1999

Supersedes: 99-04 (98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 54

(4) Adding 0.50 to the result from subitem (3); and

(5) Multiplying the result from subitem (4) times the allowable difference from subitem (1).

The nursing facility's efficiency incentive payment shall be the lesser of \$2.25 or the product obtained through calculation of subitems (1) through (5).

E. For rate years beginning on or after July 1, 1995, the forecasted price index for a nursing facility's allowable operating cost per diems shall be determined under subitems (1) to (3) using the change in the Consumer Price Index - All Items (United States city average) (CPI-U) or the change in the Nursing Home Market Basket, whichever is applicable, both as forecasted by Data Resources, Inc. The indices as forecasted in the fourth quarter of the calendar year preceding the rate year, shall be used.

(1) The CPI-U forecasted index for allowable operating cost per diems shall be based on the 21-month period from the midpoint of the nursing facility's reporting year to the midpoint of the rate year following the reporting year.

(2) The Nursing Home Market Basket forecasted index for allowable operating costs and per diem limits shall be based on the 12-month period between the midpoints of the two reporting years preceding the rate year.

(3) For rate years beginning on or after July 1, 1996, the forecasted index for operating cost limits referred to in Section 10.010, item B, shall be based on the CPI-U for the 12-month period between the midpoints of the two reporting years preceding the rate year.

F. For rate years beginning on or after July 1, 1995, if, as result of federal legislative or administrative action, the methodology used to calculate the Consumer Price Index-All Items (United States city average) (CPI-U) changes, a conversion factor or other methodology will be developed to convert the CPI-U index factor that results from the new federal methodology to an index factor that approximates, as closely as possible, the index factor that would have resulted from application of the original CPI-U methodology prior to any changes in federal changes in methodology. This conversion factor or other methodology will be used to calculate an adjusted inflation index. The adjusted inflation index must be used to calculate payment rates under this Section instead of the CPI-U index specified in item E.

G. After applying these provisions for the respective rate years, allowable operating costs per diems shall be indexed by the inflation factor provided for in item E, subitem (1) or item F if applicable, and the nursing facility's efficiency incentive as calculated in item D shall be added.

H. (1) A nursing facility licensed for 302 beds on September 30, 1993, that was approved under the State's moratorium exception process for a partial replacement, and completed the replacement project in December, 1994, is exempt from items B to D for rate years beginning on or after April 1, 1996.

(2) For the rate year beginning July 1, 1997, after computing this nursing facility's payment rate, the Department must make a one-year rate adjustment of \$8.62 to the facility's contract payment rate for the rate effect of operating cost changes associated with the facility's 1994 downsizing project.

(3) For rate years beginning July 1, 1997, the Department must add 35 cents to the facility's base property related payment rate for the rate effect of reducing its licensed capacity to 290 beds from 302 beds and must add 83 cents to the facility's real estate tax and special assessment payment rate for payments in lieu of real estate taxes. The adjustments in this item must remain in effect for the duration of the facility's contract.

I. For the rate years beginning on July 1, 1996, July 1, 1997, July 1, 1998, and July 1, 1999, a nursing facility licensed for 40 beds effective May 1, 1992, with a subsequent increase of 20 Medicare/Medicaid certified beds, effective January 26, 1993, in accordance with an increase in licensure is exempt from Section 11.046, items A to D, and Section 11.047, items A to D, respectively.

SECTION 11.046 Changes to nursing facility reimbursement beginning July 1, 1996. The nursing facility reimbursement changes in items A through G are effective for one rate year beginning July 1, 1996. In addition, the Department must determine nursing facility payment rates for this rate year without regard to the changes in this section, the results of which will serve as the basis for allowed costs in the following rate years.

A. Except for purposes of the computation of the efficiency incentive in Section 11.045, item D, the operating cost limits in Section 10.020, items A ~~to C~~ and E B, and Section 15.138 do not apply.

B. Notwithstanding Section 11.045, item E, subitem (2), the operating cost limits in Section 10.020, items A ~~to C~~ and E B are indexed for inflation as in Section 10.010, item B.

C. The high cost nursing facility limit in Section 11.045, item B, does not apply.

D. The spend-up limit in Section 11.045, item A, subitem (2), is modified as in subitems (1) to (3).

(1) For those nursing facilities in each grouping whose case mix A operating cost per diem is at or above the median plus 1.0 standard deviation of the array, the nursing

facility's allowable operating cost per diem for each case mix category is limited to the lesser of the prior reporting year's allowable operating cost per diems plus the inflation factor in Section 11.045, item E, subitem (2), or the current reporting year's corresponding allowable operating cost per diem.

(2) For those nursing facilities in each grouping whose case mix A operating cost per diem is between .5 and 1.0 standard deviation above the median of the array, the nursing facility's allowable operating cost per diem for each case mix category is limited to the lesser of the prior reporting year's allowable operating cost per diems plus the inflation factor in Section 11.045, item E, subitem (2), increased by one percentage point, or the current reporting year's corresponding allowable operating cost per diem.

(3) For those nursing facilities in each grouping whose case mix A operating cost per diem is equal to or below .5 standard deviation above the median of the array, the nursing facility's allowable operating cost per diem is limited to the lesser of the prior reporting year's allowable operating cost per diems plus the inflation factor in Section 11.045, item E, subitem (2), increased by two percentage points, or the current reporting year's corresponding allowable operating cost per diem.

E. A nursing facility licensed by the State to provide services for the physically handicapped shall be exempt from the care related portion of the limit in Section 11.045, item A, subitem (2).

F. Any reductions to the combined operating cost per diem shall be divided proportionally between the care-related and other operating cost per diems.

G. Each nursing facility's payment rate, except those nursing facilities whose payment rates are established under Section 21.000, are increased by \$.06 per resident per day.

SECTION 11.047 Changes to nursing facility reimbursement beginning July 1, 1997. The nursing facility reimbursement changes in items A through L shall apply, in the sequence specified, beginning July 1, 1997.

A. For rate years beginning on ~~or after~~ July 1, 1997 or July 1, 1998, the nursing facility's allowable operating per diem for each case mix category for each rate year shall be limited as described below.

(1) For rate years beginning on ~~or after~~ July 1, 1997 or July 1, 1998, nursing facilities shall be divided into two groups, freestanding and nonfreestanding, within each geographic group. A nonfreestanding nursing facility is a nursing facility whose other operating cost per diem is subject to the limits contained in Sections 19.025, 19.030, or 19.035. All other nursing facilities shall be considered freestanding nursing facilities. All

STATE: MINNESOTA

Effective: July 1, 1999

TN: 99-10

Approved: Dec 15, 1999

Supersedes: 99-04 (98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 57

nursing facilities in each grouping will be arrayed by their allowable case mix A operating cost per diem.

In calculating a nursing facility's operating cost per diem for this purpose, the raw food cost per diem related to providing special diets that are based on religious beliefs, as determined in Section 8.020, item B, shall be excluded.

For those nursing facilities in each grouping whose case mix A operating cost per diem:

(a) is at or below the median of the array, the nursing facility's allowable operating cost per diem for each case mix category shall be limited to the lesser of the prior reporting year's allowable operating cost per diem by computing nursing facility payment rates based on the payment rate methodology in effect on March 1, 1996 (see Section 11.045), plus the inflation factor as established in item D, subitem (2), increased by two percentage points, or the current reporting year's corresponding allowable operating cost per diem; or

(b) is above the median of the array, the nursing facility's allowable operating cost per diem for each case mix category shall be limited to the lesser of the prior reporting year's allowable operating cost per diem by computing nursing facility payment rates based on the payment rate methodology in effect on March 1, 1996 (see Section 11.045) plus the inflation factor as established in item D, subitem (2), increased by one percentage point, or the current reporting year's corresponding allowable operating cost per diem.

(c) For the purposes of this item, if a nursing facility reports on its cost report a reduction in cost due to a refund or credit for a rate year beginning on or after July 1, 1998, the Department will increase that facility's spend-up limit for the rate year following the current rate year by the amount of the cost reduction divided by its resident days for the reporting year preceding the rate year in which the adjustment is to be made.

B. For rate years beginning on ~~or after~~ July 1, 1997 or July 1, 1998, the allowable operating cost per diem for high cost nursing facilities shall be limited as described. After application of the limits in item A to each nursing facility's operating cost per diem, nursing facilities shall be divided into two groups, freestanding or nonfreestanding, and arrayed within these groupings according to allowable case mix A operating cost per diem.

In calculating a nursing facility's operating cost per diem for this purpose, the raw food cost per diem related to providing special diets that are based on religious beliefs, as determined in Section 8.020, item B, shall be excluded.

For those nursing facilities in each grouping whose case mix A operating cost per diem exceeds 1.0 standard deviation above the median, the allowable operating cost per diem will be reduced by three percent. For those nursing facilities in each grouping whose case mix A

STATE: MINNESOTA

Effective: July 1, 1999

TN: 99-10

Approved: Dec. 15, 1999

Supersedes: 99-04 (98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 58

operating cost per diem exceeds 0.5 standard deviation above the median but is less than or equal to 1.0 standard above the median, the allowable operating cost per diems will be reduced by two percent. However, in no case shall a nursing facility's operating cost per diem be reduced below its grouping's limit established at 0.5 standard deviations above the median.

C. For rate years beginning on ~~or after~~ July 1, 1997 or July 1, 1998, a nursing facility's efficiency incentive shall be determined by first computing the allowable difference, which is the lesser of \$4.50 or the amount by which the facility's other operating cost limit exceeds its nonadjusted other operating cost per diem for that rate year. Then, the efficiency incentive is computed by:

- (1) Subtracting the allowable difference from \$4.50 and dividing the result by \$4.50;
- (2) Multiplying 0.20 by the ratio resulting from subitem (1);
- (3) Adding 0.50 to the result from subitem (2); and
- (4) Multiplying the result from subitem (3) times the allowable difference.

The nursing facility's efficiency incentive payment shall be the lesser of \$2.25 or the product obtained through calculations of subitems (1) through (4).

D. For rate years beginning on ~~or after~~ July 1, 1997 or July 1, 1998, the forecasted price index for a nursing facility's allowable operating cost per diems shall be determined under subitems (1) and (2) using the change in the Consumer Price Index - All Items (United States city average) (CPI-U) as forecasted by Data Resources, Inc. The indices as forecasted in the fourth quarter of the calendar year preceding the rate year shall be used.

(1) The CPI-U forecasted index for allowable operating cost per diems shall be based on the 21-month period from the midpoint of the nursing facility's reporting year to the midpoint of the rate year following the reporting year.

(2) For rate years beginning on ~~or after~~ July 1, 1997 or July 1, 1998, the forecasted index for operating cost limits referred to in Section 10.010, item B, shall be based on the CPI-U for the 12-month period between the midpoints of the two reporting years preceding the rate year.

E. After applying these provisions for the respective rate years, allowable operating cost per diems shall be indexed by the inflation factor provided for in item D, subitem (1), and the nursing facility's efficiency incentive as calculated in item C shall be added.

STATE: MINNESOTA

Effective: July 1, 1999

TN: 99-10

Approved: Dec. 15, 1999

Supersedes: 99-04 (98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 59

F. For rate years beginning on ~~or after~~ July 1, 1997 or July 1, 1998, the total operating cost payment rates for a nursing facility shall be the greater of the total operating cost payment rates determined under this section or the total operating cost payment rates in effect on June 30, 1997, subject to rate adjustment due to field audit or rate appeal resolution. This item does not apply to subsequent field audit adjustments of the nursing facility's operating cost rates for rate years beginning on or after July 1, 1997.

G. For the rate year beginning July 1, 1997, for a nursing facility that submitted a proposal after January 13, 1994, involving replacement of 102 licensed and certified beds and relocation of the existing first facility to ~~second and third locations~~ a new location, that was approved under the State's moratorium exception process, the operating cost payment rates for the ~~third new~~ location shall be determined pursuant to Section 12.000. The relocation approved under the State's moratorium exception process, and the rate determination allowed under this item must meet the cost neutrality requirements of the State's moratorium exception process. Items A and B do not apply until the second rate year after the settle-up cost report is filed. Notwithstanding Section 16.000, payments in lieu of real estate taxes and special assessments payable by the ~~third new~~ location, a non profit corporation, as part of tax increment financing, shall be included in the payment rates determined under this section for all subsequent rate years.

H. For the rate year beginning July 1, 1997, for a nursing facility licensed for 94 beds on September 30, 1996 that applied in October 1993 for approval of a total replacement under the State's moratorium exception process and completed the approved replacement in June 1995, the Department shall compute the payment rate with other operating cost spend-up limit under item A. This amount is increased by \$3.98, and, after computing the facility's payment rate according to this Section, the Department shall make a one-year positive rate adjustment of \$3.19 for operating costs related to the newly constructed total replacement, without application of items A and B. The facility's per diem, before the \$3.19 adjustment, shall be used as the prior reporting year's allowable operating cost per diem for payment rate calculation for the rate year beginning July 1, 1998. A facility described in this item is exempt from item B for the rate years beginning July 1, 1997 and July 1, 1998.

I. For the purpose of applying the limit in item A, a nursing facility in Kandiyohi County licensed for 86 beds that was granted hospital-attached status on December 1, 1994, shall have the prior year's allowable care-related per diem increased by \$3.207 and the prior year's other operating cost per diem increased by \$4.777 before adding the inflation in item D, subitem (2), for the rate year beginning on July 1, 1997.

J. For the purpose of applying the limit stated in item A, a 117 bed nursing facility located in Pine County shall have the prior year's allowable other operating cost per diem increased by \$1.50 before adding the inflation in item D, subitem (2), for the rate year beginning on July 1, 1997.

STATE: MINNESOTA

Effective: July 1, 1999

TN: 99-10

Approved: *Dec. 15, 1999*

Supersedes: 99-04 (98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 60

K. For the purpose of applying the limit under item A, a nursing facility located in Hibbing licensed for 192 beds shall have the prior year's allowable other operating cost per diem increased by \$2.67 before adding the inflation in item D, subitem (2), for the rate year beginning on July 1, 1997.

L. A 49 bed nursing facility located in Norman County and a 129 bed nursing facility located in Polk County destroyed by the spring floods of 1997 are eligible for total replacement. These nursing facilities shall have their operating cost payment rates established using the provisions in Section 12.000, and this State plan amendment, except that the limits in items A and B of this section shall not apply until after the second rate year after the settle-up cost report is filed. The property-related payment rates are determined pursuant to Section 15.000, taking into account any federal or state flood-related loans or grants.

SECTION 11.048 Changes to nursing facility reimbursement beginning July 1, 1998.

A. For the purpose of applying the limit in Section 11.047, item A, a nursing facility in Hennepin county licensed for 181 beds on September 30, 1996, has the prior year's allowable care-related per diem increased by \$1.455 and the prior year's other operating cost per diem increased by \$0.439 before adding the inflation in Section 11.047, item D, subitem (2), for the rate year beginning July 1, 1998.

B. For the purpose of applying the limit in Section 11.047, item A, a nursing facility in Hennepin county licensed for 161 beds on September 30, 1996, has the prior year's allowable care-related per diem increased by \$1.154 and the prior year's other operating cost per diem increased by \$0.256 before adding the inflation in Section 11.047, item D, subitem (2), for the rate year beginning July 1, 1998.

C. For the purpose of applying the limit in Section 11.047, item A, a nursing facility in Ramsey county licensed for 176 beds on September 30, 1996, has the prior year's allowable care-related per diem increased by \$.083 and the prior year's other operating cost per diem increased by \$0.272 before adding the inflation in Section 11.047, item D, subitem (2), for the rate year beginning July 1, 1998.

D. For the purpose of applying the limit in Section 11.047, item A, a nursing facility in Brown county licensed for 86 beds on September 30, 1996, has the prior year's allowable care-related per diem increased by \$0.850 and the prior year's other operating cost per diem increased by \$0.275 before adding the inflation in Section 11.047, item D, subitem (2), for the rate year beginning July 1, 1998.

E. For the rate year beginning July 1, 1998, the Department will compute the payment rate for a nursing facility, which was licensed for 110 beds on May 1, 1997, was granted approval in January 1994 for a replacement and remodeling project under the moratorium

STATE: MINNESOTA

Effective: July 1, 1999

TN: 99-10

Approved: Dec. 15, 1999

Supersedes: 99-04 (98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 61

exception process and completed the approval replacement and remodeling project on May 14, 1997, by increasing the other operating cost spend-up limit under item A by \$1.64. After computing the facility's payment rate for the rate year beginning July 1, 1998, according to this section, the Department will make a one-year positive rate adjustment of \$.48 for increased real estate taxes resulting from completion of the moratorium exception project, without application of items A and B.

F. For the rate year beginning July 1, 1998, the Department will compute the payment rate for a nursing facility exempted from the care-related limits under Section 19.030, with a minimum of three-quarters of its beds licensed to provide residential services for the physically handicapped, with the care-related spend-up limit of Section 11.047, item A, increased by \$13.21 for the rate year beginning July 1, 1998, without application of Section 11.047, item B. For rate years beginning on or after July 1, 1999, the Department will exclude that amount in calculating the facility's operating cost per diem for purposes of applying Section 11.047, item B.

G. For the rate year beginning July 1, 1998, a nursing facility in Canby, Minnesota, licensed for 75 beds will be reimbursed without the limitation imposed in Section 11.047, item A, and for rate years beginning on or after July 1, 1999, its base costs will be calculated on the basis of its September 30, 1997 cost report.

H. Effective July 1, 1998, the nursing facility reimbursement changes in subitems (1) and (2) will apply in the sequence specified in this section.

(1) For rate years beginning on ~~or after~~ July 1, 1998, the operating cost limits established by Section 10.020, item ~~D~~ B, subitems (1) through (3); Section 15.138; and any previously effective corresponding limits in state law or rule do not apply, except that these cost limits will still be calculated for purposes of determining efficiency incentive per diems in Section 11.047, item D. For rate years beginning on ~~or after~~ July 1, 1998, the total operating cost payment rates for a nursing facility are the greater of the total operating cost payment rates determined under this section or the total operating cost payment rates in effect on June 30, 1998, subject to rate adjustments due to field audit or rate appeal resolution.

(2) For rate years beginning on ~~or after~~ July 1, 1998, the operating cost per diem in Section 11.047, item A, subitem (1), units (a) and (b), is the sum of the care-related and other operating per diems for a given case mix class. Any reductions to the combined operating per diem are divided proportionally between the care-related and other operating cost per diems.

I. For rate years beginning on ~~or after~~ July 1, 1998, the Department will modify the determination of the spend-up limits in Section 11.047, item A, by indexing each group's previous year's median value by the factor in Section 11.0147, item D, subitem (2), plus one

STATE: MINNESOTA

Effective: July 1, 1999

TN: 99-10

Approved: Dec 15, 1999

Supersedes: 99-04 (98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 62

percentage point.

J. For rate years beginning on ~~or after~~ July 1, 1998, the Department will modify the determination of the high cost limits in Section 11.047, item B, by indexing each groups previous year's high cost per diem limits at .5 and one standard deviations above the median by the factor in Section 11.047, item D, subitem (2), plus one percentage point.

SECTION 11.049 Changes to nursing facility reimbursement beginning July 1, 1999.

A. The base operating rate is the rate for the rate year beginning July 1, 1998.

B. For the rate year beginning July 1, 1999, the Department will make an adjustment to the total operating payment rate for a nursing facility paid by the prospective rate-setting methodology described in Sections 1.000 to 20.000 or by the contractual rate-setting methodology described in Section 21.000 that submits a plan, approved by the Department, in accordance with subitem (2). Total operating costs will be separated into compensation-related costs and all other costs. Compensation-related costs include salaries, payroll taxes, and fringe benefits for all employees except management fees, the administrator, and central office staff.

(1) For the rate year beginning July 1, 1999, the payment rate is increased by 4.843 percent of compensation-related costs and 3.446 percent of all other operating costs. A nursing facility's final 1998 Medicare cost report will be used to calculate the adjustment.

(2) To receive the total operating payment rate adjustment, a nursing facility must apply to the Department. The application must contain a plan by which the nursing facility will distribute the compensation-related portion of the payment rate adjustment to employees of the nursing facility. For a nursing facility in which the employees are represented by an exclusive bargaining representative, an agreement negotiated and agreed to by the employer and the exclusive bargaining representative constitutes the plan.

(a) The Department will review the plan to ensure that the payment rate adjustment per diem is used as provided in subitem (1).

(b) To be eligible, a nursing facility must submit its plan for the compensation distribution by December 31 each year. A nursing facility may amend its plan for the second rate year by submitting a revised plan by December 31, 2000. If a nursing facility's plan for compensation distribution is effective for its employees after July 1 of the year that the funds are available, the payment rate adjustment per diem shall be effective the same date as its plan.

(3) The payment rate adjustment for each nursing facility will be determined under clauses (a) or (b).